



BUDGET COMMITTEE



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**Senator Judd Gregg's Senate Floor Remarks on His
Housing Bill Amendment That Blocks \$18 Billion Corporate Bailout
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(unofficial transcript)**

Senator Gregg: I am most surprised to hear my colleagues on the other side object to my request to call up an amendment and have it be heard. I thought the Senate was here to do business. I think it's reasonable that as part of doing that business we should address the largest item in this bill that involves passing a cost on to our children, which is the net operating loss proposal.

Now, the way this net operating loss works is that it benefits home builders -- and that's who it's directed towards, although anybody can take advantage of it -- who built all these homes and made these massive amounts of money by offering people sub-prime mortgages, which they then took the proceeds from over the last four or five years. Sub-prime mortgages have now caused this nation to go through a massive contraction and which have created one of the largest bubbles in the history of government and in the history of commerce.

So those folks -- having made a huge amount of money, I mean, *massive* amounts of money; in fact, in the last quarter they were the largest-earning sector in our economy -- are now asking that they get an additional \$18 billion bailout by allowing them, now that they're losing money, to go back and take a tax deduction of their losses against the gains which they had in prior years.

This is as if you said to someone in business, say, somebody running a small grocery store, okay, if you make money for four years and make a lot of money and then you find you can't compete or you've made some business error and you lose money for a couple of years, we the government are going to come in and give you insurance so you never lose money. You are able to go back during the years when you made money, recover the taxes you paid and use it today to give you profits.

My goodness, I think Adam Smith would just be rolling over in his grave to hear this concept of economics. This is commissar economics where nobody can lose except for the taxpayer in the next generation who has to pay this bill. Remember, this \$18 billion is

going to be paid by somebody because it's being spent around here on the operation of the government.

And who's going to pay it? Well, it's obviously not going to be the home builder, the large corporations which ran up these huge profits. They're actually going to take that money in as income. No, that's going to be paid for by John and Mary Smith, working for a living today, or their children, because it'll go on the federal debt. Eighteen billion added on the federal debt as a result of this little piece of chicanery.

It is unbelievable that we would claim that this was a stimulus to begin with. In fact, if we are in an economic slowdown and if that economic slowdown is tied to the housing economy, none of these revenues will benefit that economic slowdown because they don't come in this year. They will be claimed this year and they will be reimbursed next year. I think the estimate is that almost all these recovery costs, recovery of taxes owed and paid as a result of getting this extra loss carry back will occur in the next budget year, 2009.

So as a practical matter, it's not going to help in the next six months, which is when all the major economists who have discussed this issue say we need stimulus in the economy. No, it's not. It's simply a bonus payment from a group of people, the American taxpayer and their children, to another group of people, the speculative housing industry that ran up these huge expansions in the housing inventory over the last three years and then sold them in the sub-prime market in a way which many people have said in many instances were not appropriate. They took advantage of the borrowers, and then took those proceeds in as income, paid taxes on them, and now they want their taxes back because they're losing money.

Well, if you made money for three or four years, and you made a lot of money, you shouldn't have a bonus given to you during the years when you're not making money simply because you happen to be one sector of this economy called the housing industry.

In fact, just the opposite should happen, quite honestly. The market should be allowed to work here, relative to the large housing manufacturers. There is some legitimacy for doing something about homeowners who got hit with a sub-prime mortgage which is resetting a rate which is astronomical on them today and they're willing to pay and could pay and maintain their home if they had a reasonable mortgage rate.

There is some reason that those folks might and should get some support or at least some assistance so that they could stay in their home and continue to pay their mortgage. But there is no practical commercial argument which justifies taking tax dollars from working Americans and paying them to home builders because home builders suddenly start to lose money after they had great years.

I mean, it's not like this is a distressed industry over a long period of time. This is an industry which has always been cyclical. And this cycle was a creation of their excess. Nothing else. They were greedy. They built a lot of homes that the market didn't need.

They sold them to people who couldn't afford them. They sold them with instruments which were totally inappropriately structured, the sub-prime mortgages. And then they took all of that profit and they used it. But, unfortunately they had to pay taxes on that profit. So now they want their taxes back and they want the American people to subsidize them on that.

Well, under no color of an open market of a capitalist system or even a marginally capitalist system would this be accepted. I don't even think France would accept this as a concept, that somebody who made a huge amount of money, and created a speculative bubble, would benefit from the taxpayers when that bubble bursts.

Yes, the people who are harmed inappropriately, the folks who bought those sub-primes and didn't understand the nature of them and maybe were misled relative to the nature of them, they do justifiably have a right to have some support, I think, as long as they're primary owners of that home and it wasn't bought for speculation, and they're able to support a reasonable mortgage rate. Maybe there's some way to adjust that.

This net loss carryback is simply a gift. Purely and simply a gift to one segment of our industrial community which participated in a very lucrative few years and now is having a hard time and created the problem which we now confront and now wants to be given a gift.

And, unfortunately, this gift has to be paid for, as I said before. I mean, we are going to run a deficit this year somewhere around \$400 billion to \$420 billion. That's a deficit that we're going to run. That's up from a deficit which was under \$200 billion last year. That's a huge increase in our deficit.

Now, who pays for the deficit? Well, our children pay for it. I mean all of this goes on to our children's back. They're the ones who pay the cost of paying off the debt which is borrowed in order to finance a deficit.

So why would we want to say to them, 'Ok, future Americans, young people coming through school today, going to college, thinking about starting a family, thinking about maybe having children and sending their kids to college,' why would we want to say to them, 'We're going to stick you with an \$18 billion debt so that we can take care of the large housing manufacturers in this country who basically created a major disruption in our economy by putting on the market a massive inventory of homes we didn't need and then using practices which were at the margin to draw people into buying those homes through sub-prime mortgage lending.'

Why would we say that to them? I mean, how can we possibly have in place a government that would justify doing that to the next generation? That's what we're going to do with this bill. We're putting \$18 billion on their backs. And where does the money go? It goes into the pocket primarily. Or at least that's the game plan. It's not specifically written so it will be taken advantage of solely by manufacturers of homes, and I suspect

there are going to be some other industries which are going to suffer losses in this economy that may take advantage of it.

But it was written primarily to take advantage of the home builder industry, which goes through cycles. In this cycle, there is no reason to step up with this special gift to that part of our economy when we don't have anything to make the gift with, when we have to borrow the down payment for the gift.

So that's why I offered this amendment, or tried to offer this amendment. Now, it seems to me if everybody is so comfortable with this legislation and this idea of a net loss carryback being extended and expanded, that they should be willing to vote on this. Is there no courage on the other side of the aisle? Are the sponsors of this concept afraid to stand up and vote on this proposal? It appears so. I'm not offering an alternative. I'm just saying, let's have an up-or-down vote on whether or not we should give a \$18 billion gift to one segment of our commercial society at the expense of the next generation who has to pay the debt for this bill. I'm just saying stand up and be counted, so to say as to whether or not you're for or against this.

So, again, I ask unanimous consent that the pending amendment be set aside and my amendment striking the provisions of the net loss carryback be considered.

The presiding officer: Is there objection?

A senator: I object.

The presiding officer: Objection is heard.

Senator Gregg: Well, I guess that makes the point. I would hope that people would ask why. Why can't we have a vote on this? What is the fear out there? Are we so concerned about this segment of our industry that we are not willing to vote up or down on whether or not this \$18 billion event should occur? I hope not.

It seems to me it's reasonable that the Congress should vote on that. The Senate should vote on that. Eighteen billion is a lot of money. Do you know \$18 billion would run the state of New Hampshire for five years? I mean, this is a lot of money. This is big-time dollars.

Eighteen billion is going to cost our children a lot because interest compounds. You don't just borrow it. You borrow it and you have to pay interest on it and the interest gets paid to the Chinese, the Indians or the Saudis, because they pay the debt. Not only do we end up with an \$18 billion bill that our kids have to pay, but our kids have to pay the Saudis or Chinese to support that debt. Also, one segment of our society, which participated in the robustness and the excitement of a large economic expansion and maybe inflated that expansion rather dramatically, doesn't have to bear the burden of their excesses.

Well, as I said, Adam Smith would be a little stunned to find that this is the way that the markets worked and the way the government of the United States, which is allegedly the government of a capitalist system, functions. So I'll probably renew this request later on because it does seem to me, since this is by far the single biggest tax item in this bill, that it should have an open debate and an up-or-down vote.

And I yield the floor.